CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

April 11, 2011

The Investment Committee met on Monday, April 11, 2011 at the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:00 a.m. and the following members were present:

George Diehr, Chair
Henry Jones, Vice Chair
John Chiang
Richard Costigan
Dan Dunmoyer
Rob Feckner
JJ Jelincic
Bill Lockyer, represented by Steve Coony
Louis F. Moret
Tony Oliveira
Ronald Yank, represented by Michelle Berklacich

Terry McGuire represented John Chiang

Board Members Excused: Priva Mathur

AGENDA ITEM 2 - APPROVAL OF MARCH 2011 MEETING MINUTES

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** that the March 14, 2011 Open Session minutes be approved as presented.

AGENDA ITEM 3 – FUND POLICY BENCHMARKS

Farouki Majeed, Senior Investment Officer, and Ray Venner, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Consulting, was available to respond to questions from the Committee.

In December 2010, the Investment Committee approved a new asset reclassification. A step in the implementation of the reclassification was a comprehensive review of investment benchmarks for all asset classes that would constitute the total fund policy portfolio. Staff completed the review and presented an overview of current and proposed investment benchmarks.

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** to approve the proposed benchmarks as presented in the following table:

Asset	Current Benchmark	Proposed Benchmark	
GROWTH	NA	(49/63) * public equity benchmark + (14/63) * AIM benchmark	
Public Equity	95% * Custom FTSE All World TMI + 5% * (T-bills + 5%)	100% Custom FTSE All World TMI	
AIM (Private Equity)	Wilshire 2500 + 3%, lagged one qtr	(2/3 FTSE U.S. TMI + 1/3 FTSE All World ex-U.S. TMI) + 3%, lagged 1 qtr	
REAL	NA	(10/13) * real estate benchmark + (2/13) * infrastructure benchmark + (1/13) * forestland benchmark	
Real Estate	90% * (NCREIF NPI +2%) + 10% * FTSE EPRA NAREIT Developed, all lagged one qtr	NCREIF ODCE, lagged one qtr	
Forestland	CPI + 5%, lagged one qtr	NCREIF Timberland, lagged one qtr	
Infrastructure	CPI + 5%, lagged one qtr	CPI + 4%, lagged one qtr	
INITIATION	ODI - 40/	(2/4) * II D b a rach resorts	
INFLATION LINKED	CPI + 4%	(3/4) * ILB benchmark + (1/4) * commodities benchmark	
Inflation Linked Bonds (ILB)	Custom Global ILB Index	Revised list of included countries within the 1/3 non-U.S. allocation	
Commodities	S&P GSCI Total Return	No change	
INCOME	90.5% Barclays Long Liabilities + 9.5% Barclays International Fixed Income	No change, except that the U.S. allocation changes from 90.5% to 90.0%	
LIGHTY.	N/A	750/ + D 1 7 0 40	
LIQUIDITY	NA	75% * Barclays Tsy 2-10 yr. + 25% * 1 month T-bill	
Program			
Absolute Return	T-bill + 5%	No change	
Opportunistic	Total fund benchmark	No change	

AGENDA ITEM 4 – JUDGES' II (JRS II) AND LEGISLATORS' (LRS) RETIREMENT SYSTEMS ANNUAL UPDATE AND STRATEGIC ASSET ALLOCATION

Geraldine Jimenez, Division Chief; Farouki Majeed, Senior Investment Officer; and Ray Venner, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Consulting, was available to respond to questions from the Committee.

CalPERS is responsible for the administration of the Judges' Retirement System II (JRS II) and the Legislators' Retirement System (LRS) and for setting the member and employer contribution rates for each plan. The plans are invested according to an asset allocation strategy approved by the Investment Committee and managed by Investment staff. Based on capital market assumptions from the November 2010 Asset Liability Management Workshop, staff presented alternative policy portfolios for the Committee's consideration.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to adopt the asset allocation policy portfolio 7 for JRS II; and portfolio 2 for LRS as follows:

	JRS II (P7)	LRS (P2)		
Expected Annual Nominal Return				
Compound	7.00%	5.75%		
Volatility	11.31%	7.27%		
Average	7.59%	6.00%		
Sharpe Ratio	0.398	0.447		
Prob. of annual loss	25.1%	20.5%		
Prob. of annual loss > 10%	6.0%	1.4%		
Est. Contribution Rate	25.4%	0.0%		
Allocation				
US I.L. Bonds (TIPS)	6%	15%		
U.S. Nominal Bonds	20%	42%		
Global Equity	63%	32%		
Global Public Real Estate	8%	8%		
Commodities	3%	3%		

AGENDA ITEM 5 – CONTRACTS – GLOBAL EQUITY EXTERNAL INVESTMENT MANAGER SOLICITATION

Kami Niebank, Division Chief, and Eric Baggesen, Senior Investment Officer, presented the item.

Staff requested authority to conduct a solicitation for Global Equity investment managers in accordance with approved solicitation methods, which will provide CalPERS with more flexibility and enhance its ability to improve the relative

performance of the Global Equity program. Staff provided an overview of the benefits of the proposed search and selection process.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to approve the solicitation for Global Equity Investment Managers.

Staff will present the selected investment managers to the Committee for approval at a subsequent meeting.

AGENDA ITEM 6a – TOTAL FUND – California Investment Update

Joseph Dear, Chief Investment Officer, and Jesus Arguelles, Portfolio Manager, presented highlights from the CalPERS for California Report. Ben Thornley, Pacific Community Ventures, and Paul Yett, Hamilton Lane, participated in the presentation.

Staff and consultants reported on the financial results of the California Initiative Program as well as ancillary benefit highlights as of June 30, 2010.

The Committee accepted the annual information report.

AGENDA ITEM 7 - PROGRAM UPDATES

There were no items to report for the following programs:

- Real Estate
- Inflation-Linked Asset Class (ILAC)
- Alternative Investments Management (AIM)
- Global Fixed Income
- Global Equity
- Affiliate Investment Programs

Global Equity – Corporate Governance

Anne Simpson, Senior Portfolio Manager, provided updates regarding the launch of the Diverse Director DataSource (3D) Project. The project will establish a resource for shareowners, nominating committees and search experts to find diverse talent to nominate for corporate boards.

AGENDA ITEM 8 – ACTIVITY REPORTS

The Committee accepted the following activity reports:

- a. Consolidated Investment Activity Report
- b. Chief Operating Investment Officer's Status Report

AGENDA ITEM 9 – AGENDA AND CALENDAR

The Committee accepted the following:

- a. Draft agenda for May 16, 2011
- b. Rolling Annual Agenda Item Calendar

AGENDA ITEM 10 – PUBLIC COMMENT

There were no public comments.

The meeting was adjourned at 11:55 a.m.

The next Investment Committee meeting is scheduled for May 16, 2011 in Sacramento, California.

STEPHEN W. KESSLER Deputy Executive Officer Operations